

DRAFT
PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Item 27 I. D. #4824
RESOLUTION E-3943
September 8, 2005

R E S O L U T I O N

Resolution E-3943. This resolution directs Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) to take additional actions to be in full compliance with California Public Utilities Commission (CPUC or Commission) Decision 04-07-028, which would be consistent with their approved short-term procurement plans. PG&E and SCE are ordered to develop a new Operating Procedure in cooperation with the California Independent System Operator to help congestion mitigation by using effectiveness factors in procurement and scheduling activities.

SUMMARY

This Resolution directs PG&E and SCE to take additional actions to be in full compliance with Decision (D.) 04-07-028, by developing a new Operating Procedure, which would be consistent with their approved short-term procurement plans, to help congestion mitigation by using effectiveness factors in procurement and scheduling activities.

PG&E and SCE are ordered to develop a new Operating Procedure in cooperation with the California Independent System Operator to help congestion mitigation by using effectiveness factors in procurement and scheduling activities. San Diego Gas & Electric Company (SDG&E) has already developed such a Procedure that was approved by the Commission on February 10, 2005 by Resolution E-3910.

BACKGROUND

The CPUC issued D.04-07-028 in July 2004 to address electric system reliability through 2005.

To address electric system reliability through 2005, the CPUC issued D.04-07-028 on July 8, 2004 to clarify and modify past Commission orders regarding the least-cost dispatch standards that utilities follow when making resource scheduling and short-term procurement decisions.

The decision requires the utilities under CPUC jurisdiction, i. e., PG&E, SCE, and SDG&E, to consider reliability factors and incorporate all known and reasonably anticipated ISO-related costs when procuring and scheduling resources. These costs include congestion, re-dispatch, and must-offer costs.

The decision recognizes that the long-term solutions to these problems will be found in market design changes and the resolution and implementation of resource adequacy issues being addressed in R.04-04-003. The guidelines outlined in D.04-07-028, however, shall serve as a “bridge” until the longer-term issues are resolved. Actions taken in furtherance of D.04-07-028 “shall be deemed consistent with the utilities’ already approved short-term procurement plans.”

PROTESTS

SDG&E Advice Letter 1641-E, which was filed on December 3, 2004 containing its proposed Operating Procedure for congestion mitigation, had been protested by SCE on December 23, 2004. SDG&E responded to SCE’s protest on December 30, 2004. Additionally, the ISO filed a letter on December 23, 2004, in support of SDG&E’s proposed Operating Procedure in AL 1641-E.

SCE’s protest was discussed in Resolution E-3910, which approved SDG&E’s AL 1641-E. It is worth repeating the detailed summary of the major issues raised in that protest because PG&E and SCE need to develop a similar Procedure, in cooperation with the ISO, to help congestion mitigation by using effectiveness factors in procurement and scheduling activities.

SCE stated that AL 1641-E should be rejected for the following general reasons:

- The advice letter fails to comply with the Commission’s directives to schedule and procure sufficient and appropriate resources system-wide and locally.
- It does not meet customers’ needs for local area reliability.
- It does not permit the California Independent System Operator (ISO) to maintain reliable grid operations.
- It does not include an effective mechanism for mitigating intra-zonal congestion.
- It may actually increase the ISO’s real-time administrative burdens and operating costs.
- It may shift costs from all transmission customers to the bundled customers of load serving entities.

SCE stated the advice letter should be rejected for the following specific reasons:

- **The proposed procedure is based on outdated and overly aggregated information.**

SCE claimed that the transmission adders described in SDG&E's proposed procedure rely in large part on ISO settlement data up to 90 days old. SCE believes that SDG&E does not explain why it uses such data for current procurement and dispatch decisions when the ISO has access to more up-to-date information.

SCE also claimed that SDG&E uses data that is aggregated over an entire month or longer. SCE stated that since energy transactions generally span an hour or only a few hours of a month, using monthly aggregated data for current decision making provides no insight on whether the intra-zonal congestion is primarily an on-peak, off-peak, or hourly problem.

SDG&E responded that it relies on the timeliest ISO data at its disposal when calculating its "cost adders" as part of its procurement procedure. Currently the ISO data is obtained from the CAISO Department of Market Analysis monthly report posted on the CAISO website. That report is typically published approximately six weeks after the end of each month, so that some of the data is up to 10 weeks old.

SDG&E informed Commission Staff that as part of the ISO's commitment to assist utilities in helping the ISO to manage intra-zonal congestion, the ISO is developing a process for gathering and disseminating data that is superior to the current data used by SDG&E. The goal is to have data that is timelier and more path-specific, in line with enhanced logging of dispatches as required by Amendment 60 cost allocation.

- **The advice letter cannot be considered an effective congestion management strategy.**

SCE stated that D.04-07-028 requires SDG&E to dispatch its resources in a manner that facilitates system-wide and local area reliability. SCE suggests that the advice letter should provide for SDG&E's dispatching the generating units under its control in a manner consistent with M-438, specifically Williams Product D.

SCE stated that, *"The proposed procedure will produce no benefits, and may actually cause additional congestion."* SCE believed that even though SDG&E may avoid importing power from a constrained location, other market participants would respond by scheduling an import at that location. SCE argued that if SDG&E is buying power in SP-15 through a Scheduling Coordinator transfer to replace an import it would have otherwise scheduled, it is possible that the entity selling the power to SDG&E in SP-15 is itself importing the power over the same path SDG&E avoided. SCE claimed that SDG&E has no way of determining the source of such a transaction.

In response, SDG&E cites the ISO's support letter mentioning that SDG&E's proposed procedure was developed with input from the ISO. The ISO stated that it *"concurs that the theory underlying the Procurement Procedure is sound and that it should promote more feasible scheduling and facilitate cost*

accounting for the associated reliability service premium recoverable through the Reliability Services provisions in SDG&E's Transmission Owner Tariff."

SDG&E stated, *"The ISO's letter of support helps to demonstrate that SDG&E has fully responded to the Commission's direction in D.04-07-028 for the utilities to take reasonable, incremental steps to ensure that reliability is considered in procurement and scheduling of resources."*

SDG&E further clarified that its proposed procedure applies to both scheduling and procurement, which encompasses a broader scope than relying solely on M-438 to fulfill a utility's obligations for procurement. SDG&E's proposed procedure is designed to operate during all hours of all months throughout the year.

SDG&E also stated that its procedure will result in additional commitment and output of in-basin units based upon the price signals described in the procedure.

SDG&E acknowledged in its advice letter and repeated in its response to SCE's protest that other non-CPUC jurisdictional entities may re-congest the same lines, but those factors are outside SDG&E's and the Commission's control.

- **SDG&E's proposed procedure lacks a mechanism for recovery of incremental costs.**

SCE claimed that SDG&E's proposed procedure is deficient because it lacks a mechanism for recovery of incremental costs from other load serving entities as required by D.04-07-028. SCE stated, *"Advice Letter 1641-E contains no information as to how SDG&E proposes to establish and seek recovery of any cost premiums it incurs in implementing the proposed procedure."*

In response SDG&E stated that the Commission has already indicated that utilities may recover costs incurred for reliability purposes consistent with D.04-07-028. SDG&E stated that, *"SDG&E will indeed seek such cost recovery through the appropriate CPUC and FERC proceedings and filings ... That showing is not required here."*

Commission Staff agreed with SDG&E that the issue of cost recovery has already been addressed by D.04-07-028, and did not need to be expanded upon in SDG&E's AL filing. As stipulated in the decision, actions taken in furtherance of the directives of the orders in the decision are deemed consistent with the utilities' approved short-term procurement plans, and thereby subsumed within the protection provided by AB 57. Therefore, the related costs should be fully recoverable by SDG&E as part of its approved short-term procurement plan.

DISCUSSION

Discussion of the principles that lead to development of the recommended Operating Procedure is below.

PG&E and SCE should work with the ISO, as SDG&E has done, to identify their energy positions and contracts.

In furtherance of Ordering Paragraph 1 of the decision, SDG&E has worked with the ISO to be included in Operating Procedure M-438. PG&E and SCE should also work with the ISO to review those resources already included in M-438 and identify any potential new resources or capacity that could be added.

In cooperation with the ISO, PG&E and SCE should develop and implement a new Operating Procedure for congestion mitigation using effectiveness factors in scheduling and procurement decisions.

This new procedure, developed with input from the ISO, should be designed to be complementary to the ISO's Operating Procedure M-438. The utilities should develop and implement this procedure immediately because any additional costs resulting from this procedure would be offset by the congestion cost savings.

The proposed Operating Procedure would allow the utilities to estimate the ISO's intra-zonal congestion mitigation costs.

The proposed Operating Procedure is based on the most recently available data contained in reports prepared by the ISO's Department of Market Analysis. This data allows the utilities to make approximations or estimates of the ISO's intra-zonal congestion mitigation costs. These estimates are predicated on certain assumptions that are used to calculate the per MWh cost for each constrained intra-zonal path, as well as the impact of transactions on each constrained path.

This procedure also utilizes the effectiveness factors provided by the ISO. These factors inform the utilities how effective any procurement and scheduling activity might be towards mitigating or exacerbating congestion on any potentially constrained path. These factors apply to imports from the tie points and allow the utilities to understand how potential procurement and scheduling transactions may affect flows on specific paths.

The ISO supported SDG&E's proposed Operating Procedure.

In its December 23, 2004 letter, the ISO expressed support for SDG&E's proposed Operating Procedure in AL 1641-E. SDG&E developed the Operating Procedure with input from the ISO.

The ISO stated, *"The CAISO concurs that the theory underlying the Procurement Procedure is sound and that it should promote more feasible scheduling and facilitate cost accounting for the associated*

reliability services premium recoverable through the Reliability Services provisions in SDG&E's Transmission Owner Tariff. SDG&E acknowledges that the CAISO may request that SDG&E augment, through a supplemental Request for Offers or other mechanism, additional generation capacity from a list of generating units identified by the CAISO, as may become available."

More current data would enhance the effectiveness of SDG&E's proposed Operating Procedure.

The Operating Procedure proposes to utilize estimated path-specific congestion cost signals to determine whether to replace a schedule that may contribute to a congested path with an alternate resource that mitigates the congestion.

In its AL, SDG&E noted that the Operating Procedure may be impacted by the "lag time" in the congestion data available from the ISO to calculate the estimated congestion costs. SDG&E suggested that certain forecasted data be made available by the ISO, e.g., forecast of hours that each path is expected to be constrained, forecast of the amount and location of required mitigation, and forecast of costs to mitigate the congestion.

In its support letter, the ISO acknowledged that more current data would enhance the effectiveness of SDG&E's Operating Procedure. The ISO stated, *"The CAISO is working diligently, within the parameters of its tariff, to provide timely historical data on the location and amount of congestion on an intra-zonal or path-specific basis. However, the CAISO does not presently anticipate providing the 'forecast' information suggested by SDG&E."*

Staff agrees that the ISO should be encouraged to apply all necessary resources to produce more detailed and timely data to be used by the utilities in implementing D.04-07-028 and assisting the ISO in its congestion management efforts.

Development of the proposed Operating Procedure by the utilities would be consistent with the Commission's directives in D.04-07-028.

Staff finds actions taken by the utilities to develop and implement such a procedure offer the "incremental improvement" that the Commission seeks in D.04-07-028. We recognize that long-term solutions will ultimately be achieved through adoption of market design changes and implementation of a long-term resource adequacy program.

As stipulated in the decision, actions taken in furtherance of the directives of the orders in the decision are deemed consistent with the utilities' already approved short-term procurement plans, and thereby subsumed within the protection provided by AB 57. Therefore, the related costs should be fully recoverable by the utilities as part of their approved short-term procurement plans.

SCE had been previously directed in Resolution E-3902 to develop such a procedure.

Resolution E-3902, dated December 16, 2004, noted that SCE is not in full compliance with D.04-07-028. The Resolution states, *“We encourage SCE to work with the ISO to develop additional procedures or other actions to complement ISO’s existing Operating Procedure M-438, which would allow the utility to make approximations or estimates of the ISO’s intra-zonal congestion mitigation costs. By using the ISO’s effectiveness factors, which apply to imports from the tie points, SCE would be more informed about how effective any procurement and scheduling activity would be towards mitigating congestion on any constrained path and allow SCE to better understand the flow on any constrained path created by each of its procurement and scheduling transactions. The ISO should be providing load-serving entities with the information they require to procure and schedule resources in a manner that supports reliable grid operations.”*

Ordering Paragraph 2 of Resolution E-3902 states, *“SCE shall aggressively work with the CAISO to develop a procedure, complementary to M-438, addressing congestion mitigation to be in full compliance with the directives of D.04-07-028.”* Staff notes that SCE has not complied with this Order.

COMMENTS

Public Utilities Code section 311(g) (1) generally requires resolutions to be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, this Resolution has been issued for public review and comment.

FINDINGS

1. SDG&E filed Advice Letter 1641-E on December 3, 2004 to notify the CPUC of actions it has taken pursuant to D.04-07-028 including a proposed new Operating Procedure for congestion mitigation.
2. Resolution E-3910 approved SDG&E’s AL 1641-E on February 10, 2005.
3. SDG&E worked with the ISO to be included in Operating Procedure M-438.
4. PG&E and SCE should continue to work with the ISO to identify any potential new resources or capacity that can be added to M-438.
5. In cooperation with the ISO, SDG&E developed the new Operating Procedure, as a complement to M-438, for congestion mitigation using effectiveness factors in scheduling and procurement decisions.
6. In cooperation with the ISO, PG&E and SCE should develop and implement a similar Operating Procedure.
7. The proposed Operating Procedure would allow the utilities to estimate the ISO’s intra-zonal congestion mitigation costs.

8. Development of the proposed Operating Procedure by the utilities would be consistent with the Commission's directives in D.04-07-028 and the utilities' approved short-term procurement plans.
9. The related costs should be fully recoverable by the utilities as part of their approved short-term procurement plans.
10. The ISO filed a letter in support of SDG&E's proposed Operating Procedure as described in AL 1641-E.
11. SCE has not complied with Ordering Paragraph 2 of Resolution E-3902, dated December 16, 2004.

THEREFORE IT IS ORDERED THAT:

1. PG&E and SCE shall continue to work with the ISO to identify any potential new resources or capacity that can be added to Procedure M-438.
2. In cooperation with the ISO, PG&E and SCE shall develop and implement an Operating Procedure for congestion mitigation using effectiveness factors in procurement and scheduling activities, consistent with their short-term procurement plans and the directives in D.04-07-028.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on September 8, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director